

POOLED MONEY INVESTMENT BOARD
915 Capitol Mall, Room 110
Sacramento, CA 95814

MINUTES

Wednesday, January 19, 2005

The meeting was called to order at 10:01 a.m.

Roll: Francisco Lujano for State Treasurer Philip Angelides
 Cindy Aronberg for State Controller Steve Westly
 Anne Sheehan for Director of Finance Thomas J. Campbell

Staff Present: Mark Paul, Executive Secretary, PMIB
 Doug Spittler, State Treasurer's Office
 Connie LeLouis, Attorney General's Office
 Linda McAtee, State Treasurer's Office

APPROVAL OF MINUTES

The Minutes for the meeting of December 15, 2004, were approved as submitted, 3-0.

APPROVAL OF PMIB DESIGNATION NO. 1667

Mr. Doug Spittler of the State Treasurer's Office presented the portfolio Summary Report as of January 12, 2005. On that day, the portfolio stood at \$53.513 billion. The effective yield was 2.241%, the quarter-to-date yield was 2.221% and the year-to-date yield was 1.869%. The average life of the portfolio was 206 days and AB 55 Loans approved stood at \$4.894 billion with \$1.271 billion having been disbursed. The Local Agency Investment Fund had deposits totaling \$19.491 billion with 2,733 participants.

Designation No. 1667 was approved, 3-0.

APPROVAL OF AUTHORIZATION FOR GENERAL FUND INTERNAL BORROWING

Mr. Spittler presented this document, which authorizes the General Fund to borrow from internal sources – the special funds and accounts within the State Treasury – to meet its cash needs during periods of shortfall. The authorization presented at this meeting was for the period February 1, 2005, through April 30, 2005. He noted that the amount available from various internal sources was estimated to be \$9.814 billion.

The authorization for General Fund internal borrowing for the period February 1, 2005, through April 30, 2005, was approved, 3-0.

APPROVAL OF SURPLUS MONEY DECLARATIONS/REDUCTIONS

Mr. Doug Spittler presented the changes in the Surplus Money Investment Fund for the period December 1, 2004, through December 31, 2004. During that month \$7.362 billion was declared surplus in various special funds, while \$7.782 billion was declared to be a reduction in surplus.

The Surplus Money Declaration/Reduction for the month of December 2004 was approved, 3-0.

APPROVAL OF SURPLUS MONEY INVESTMENT FUND REQUESTS

Mr. Spittler presented a SMIF request from Department of Justice for two accounts: (1) for the DNA Identification Fund (Fund Number 3086) and (2) for the Special Deposit Fund, Electronic Recording Authorization Account (Fund Number 0942148). Mr. Spittler said that staff had determined that these requests were consistent with the statutory requirements and that they recommended their approval.

The Board accepted staff's recommendations and approved the requests, 3-0.

ARRANGEMENTS WITH BANKS (INFORMATIONAL ITEM)

Ms. Sheehan indicated that she had some questions regarding the briefing memo for this agenda item. In particular, she wanted to know what the names of the seven depository banks were and what the specific, prior-year adjustments were for each bank. Mr. John Hiber of the Cash Management Division of the State Treasurer's Office responded that he would be happy to provide that information to her.

Mr. Hiber then presented the informational memorandum included in the briefing binder. He stated that the Treasurer had renewed the terms of the existing banking relationships for the 2004-05 fiscal year. This determination was made after conducting annual meetings with each of the seven depository banks. The following staff recommendations were approved by the Treasurer:

Uncollected Funds: No change to the float allowance and formula used for determining the level of demand deposit balances needed to compensate the banks for uncollected funds.

Service Charges: No changes to the formula and service charges allowed for determining the level of demand deposit balances needed to compensate the banks for services rendered.

Mr. Hiber noted that this was an informational item and that it needed no approval by the Board.

Ms. Aronberg of the State Controller's Office asked several questions regarding the State Treasurer's policy for determining depository banks. Mr. Hiber provided a brief overview of the

process. Ms. Aronberg then asked that Mr. Hiber provide her with a copy of the information the State Treasurer's Office provides to institutions interested in becoming depository banks.

Mr. Sherwood, the Interim Director of the Cash Management Division, asked to be recognized by the Chair. Mr. Sherwood introduced himself and then provided a summary the process of selecting depository banks and the names of the seven depository banks: Bank of America, California Bank & Trust, Bank of the West, Union Bank, U.S. Bank, Wells Fargo Bank, and Westamerica Bank. Mr. Sherwood also presented a summary of each bank's estimated and actual banking charges for 2003-04.

Mr. Hiber concluded the presentation of this agenda item by stating that he would provide the members of the Board with a written summary of the 2003-04 banking charges and a copy of the information the State Treasurer's Office provides to institutions interested in becoming demand depository banks.

APPROVAL OF AB 55 LOANS—Item #8

Mr. Chris Kooyman of the Public Finance Division of the State Treasurer's Office presented nine loan requests for agenda item #8. as shown in the following table. He noted that loans 8.a. through 8.f. were for general obligation bond programs, that loan 8.g. was for the CalHFA loan warehousing program and that loans 8.h. and 8.i. were for lease revenue bond programs.

Loan Number	Type	Department/Program	Adjusted Loan Amount
045111	GO/Renewal	State Allocation Board Office of Public School Construction School Facilities Bond Act of 1990 (June)	\$1,256,101.43
045112	GO/Renewal	State Allocation Board Office of Public School Construction Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	\$1,120,129,085.09
045113	GO/Renewal	Department of Water Resources Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Bond Act of 2000	\$135,567,371.00
045114	GO/Renewal	Department of Conservation Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Bond Act of 2000	\$422,280.40
045115	GO/New	Department of the Youth Authority New Prison Construction Bond Act of 1988	\$1,500,000.00
045116	GO/New	Department of the Youth Authority New Prison Construction Bond Act of 1990	\$500,000.00

APPROVAL OF AB 55 LOANS—Item #8 (Continued)

Loan Number	Type	Department/Program	Adjusted Loan Amount
045117	Rev/Renewal	California Housing Finance Agency CalHFA Revenue Bond Program Loan Warehousing Program (Revolving)	\$300,000,000.00
045118	REV/Renewal	Department of Corrections SPWB Lease Revenue Bonds California Men's Colony, Wastewater Collection Treatment Upgrade	\$14,098,363.00
045119	REV/Renewal	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds San Luis Obispo Ranger Unit Headquarters	\$22,100.00

Mr. Kooyman said all loans were recommended as presented with no contingencies. The impact on the Pool from approving these nine loans would be to increase portfolio loan balances by \$377.2 million.

All nine loans were approved in the amounts recommended by staff, 3-0.

APPROVAL OF ENERGY EFFICIENCY AB 55 LOANS—Item #9

Mr. Kooyman presented five loan requests under agenda item #9 noting that they were all renewal requests for the State Public Works Board's Energy Conservation Revenue Bond Program.

Loan Number	Type	Department/Program	Adjusted Loan Amount
045120	REV/Renewal	Department of General Services SPWB Energy Conservation Revenue Bonds Ronald Reagan State Building	\$4,937,660.00
045121	REV/Renewal	Department of General Services SPWB Energy Conservation Revenue Bonds Elihu Harris State Building	\$962,756.00
045122	REV/Renewal	Department of General Services SPWB Energy Conservation Revenue Bonds Edmund G. Brown State Building	\$1,330,194.00
045123	REV/Renewal	Department of General Services SPWB Energy Conservation Revenue Bonds San Francisco Civic Center State Building	\$1,095,409.00
045124	REV/Renewal	Department of Mental Health SPWB Energy Conservation Revenue Bonds Metropolitan State Hospital	\$3,654,607.00

Mr. Juan Fernandez of the State Treasurer's Office, Public Finance Division, addressed the Board and said that he wanted to give them a bit of background and to explain his

recommendation. He stated that last fall, eight loans remained in the Pool for the Energy Conservation Revenue Bond Program. These loans would have been repaid in November from the proceeds of a bond sale. However, in September, the Attorney General's Office informed the STO that it could not deliver its usual and customary validity opinion for the Energy Conservation Bond Program. Without that opinion, the Treasurers' Office could not sell the bonds and was prepared to instruct the Controller's Office to transfer sufficient funds from the borrowers' support appropriations to repay the loans. However, prior to our doing this, the Department of Finance asked to put the first three of these eight loans on the agenda for the October meeting.

At the October meeting, Mr. Fernandez indicated that all AB 55 loans had been made under Government Code Section 16312 and, as such, could only be made to programs or projects authorized to be financed by issuing bonds, notes, or some other evidence of indebtedness. However, the Attorney General's Office informed the Board, in a memo dated October 14, 2004, that there was another Government Code Section (§16313) under which the renewal of the loans could be granted. Since the Board had never granted a loan under Section 16313 and since the STO did not believe that the Section 16313 provisions applied to this situation, Mr. Fernandez recommended to the Board that these three energy efficiency loans be repaid immediately from the departments' support appropriations.

However, Mr. Fernandez acknowledged that this decision involved a policy issue that the Board needed to address. If the Board chose to refinance these three loans under the provisions of Government Code Section 16313, he requested that it do so under the following three conditions.

1. The term of these loans should be for a short period.
2. The Department of Finance should be required to certify that sufficient funds would be available from the borrowing departments' support appropriations when the loans come due.
3. The Board should make it clear that, if Finance has not obtained a deficiency appropriation to repay the loans by the time the loans come due, the Treasurer will instruct the Controller to transfer funds from the departments' support appropriations to repay the loans.

The Board approved these first three loans on a vote of 2-1 with the above conditions and a maturity of April 20, 2005.

Mr. Fernandez stated that the last five loans for the Energy Conservation Revenue Bond Program were now before the Board and that we still have the same situation that we had in October. The Public Finance Division again recommended to the Board that these five energy efficiency loans be repaid immediately from the departments' support appropriations. However, if the Board chooses to approve these five loans like they did the prior three in October, then he urged the Board to piggy-back on the prior approval and adopt the same maturity and conditions as approved for the first three loans.

Ms. Sheehan then moved, under the same terms and conditions attached to the three Energy Conservation Revenue Bond Program loans approved in October 2004, to enter into five new loans under Section 16313 with the finding that this action was in the best interest of the state in light of the unforeseen circumstances involved and the adverse consequences that would result from a reduction of programs and services to the public.

Ms. Aronberg seconded the motion.

Before calling for a vote, Mr. Lujano said that he would like to read a statement from Treasurer Phil Angelides:

As I stated in October, I cannot vote to approve these loans. The proposed loans would add an element of risk to the Pool. Unlike normal AB 55 loans, they do not have the security of a legally authorized bond sale as source of repayment, only the hope that the Legislature will authorize a deficiency appropriation to repay them.

As fiduciaries, the members of the Pooled Money Investment Board must act solely in the interests of the Pool. Approving these loans would likely cause concern among the local agencies whose money is invested in the Pool and that are sensitive to any suggestion that the State is borrowing money to solve its own budget problems. We are managing other people's money. We have a duty of care to manage the Pool's assets as they would prudently manage them. These loans do not meet that test.

Mr. Lujano then requested a vote on the five loans.

State Treasurer	No
State Controller	Aye
Director of Finance	Aye

The five loan requests were approved in the amounts recommended by staff under the conditions described above, 2-1.

INFORMATIONAL UPDATE ON AB 55 LOAN

Mr. Chris Kooyman presented the Board with an update on the following loan under agenda item #10 as shown in the following table.

Loan Number	Type	Department/Program	Adjusted Loan Amount
034158	REV/Renewal	Office of Emergency Services SPWB Lease Revenue Bonds Los Angeles Regional Crime Laboratory	\$

Mr. Kooyman said that at one point in time there was some concern because this project was authorized under special legislation (Assembly Bill 3000, Chapter 1124 of 2002) and was not able to be augmented. This project had come in over-bid and because of this it was possible that

it might not be able to go forward. However, because it was in Los Angeles, the City and County of Los Angeles both agreed to contribute \$6 million to allow the project to go forward. Mr. Kooyman said it was his understanding that the check for \$6 million had been received and was to be deposited into the Architectural Revolving Fund to cover the shortage. He concluded by saying that the project should now be able to move ahead.

PUBLIC COMMENT

None.

In the absence of further business, the meeting was adjourned at 10:29 a.m.

Respectfully submitted

Mark Paul
Executive Secretary